

**CITY OF MEDICINE LODGE, KANSAS**

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**FINANCIAL STATEMENT  
with  
INDEPENDENT AUDITOR'S REPORT  
and  
UNIFORM GUIDANCE REPORTS  
YEAR ENDED DECEMBER 31, 2017**

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council  
Medicine Lodge, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash of the City of Medicine Lodge, Kansas, as of and for the year ended December 31, 2017, and the related notes to the financial statement.

### Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note A; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note A, the financial statement is prepared by the City of Medicine Lodge, Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note A and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

## **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Medicine Lodge, Kansas as of December 31, 2017, or changes in financial position and cash flows thereof for the year then ended.

## **Unmodified Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balances of the City of Medicine Lodge, Kansas as of December 31, 2017, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note A.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2018, on our consideration of the City of Medicine Lodge, Kansas's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Medicine Lodge, Kansas's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Medicine Lodge, Kansas's internal control over financial reporting and compliance.

## **Other Matters**

### **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash (basic financial statement) as a whole. The summary of regulatory basis expenditures - actual and budget and individual fund schedules of regulatory basis receipts and expenditures, (Schedule 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. The schedule of expenditures of federal awards is presented for additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note A.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statement of the City of Medicine Lodge, Kansas as of and for the year ended December 31, 2016 (not presented herein), and have issued our report thereon dated October 13, 2017, which contained an unmodified opinion on the basic financial statement. The 2016 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the website of the Kansas Department of Administration at the following link <http://admin.ks.gov/offices/chief-financial-officer/municipal-services>. The 2016 actual column (2016 comparative information) presented in the individual fund schedules of regulatory basis receipts and expenditures - actual and budget for year ended December 31, 2017 (Schedule 2 as listed in the table of contents) is presented for additional analysis and is not a required part of the basic financial statement. Such 2016 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2016 basic financial statement. The 2016 comparative information was subjected to the auditing procedures applied in the audit of the 2016 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2016 basic financial statement or to the 2016 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2016 comparative information is fairly stated in all material respects in relation to the 2016 basic financial statement as a whole, on the basis of accounting described in Note A.

*Kennedy McKee & Company LLP*

November 1, 2018

# CITY OF MEDICINE LODGE, KANSAS

## SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH REGULATORY BASIS

For the Year Ended December 31, 2017

<u>Fund</u>	<u>Beginning unencumbered cash balance</u>	<u>Prior year canceled encumbrances</u>
General fund:		
General	\$ 367,500	\$ -
Special purpose funds:		
Tourism	32,618	-
Library	73	-
Special highway	141,160	-
Special parks and recreation	8,796	-
Community improvement district	186,921	-
Municipal equipment reserve	714,525	-
Capital improvements reserve	395,539	-
Public Building Commission	2,665	-
Total special purpose funds	1,482,297	-
Bond and interest fund:		
Bond and interest	18,034	-
Capital project funds:		
Sidewalk improvement	11,151	-
Community improvement district project	-	-
Total capital project funds	11,151	-
Business funds:		
Water utility	826,321	-
Sewer utility	140,296	-
Solid waste utility	2,391	-
Waterworks depreciation and maintenance reserve	1,620,317	-
Sewer plant O-M-R	69,476	-
Total business funds	2,658,801	-
Total	\$ 4,537,783	\$ -
Composition of cash balance:		
Cash on hand		
Demand deposits		
Certificates of deposit		
Total cash		

The notes to the financial statement are an integral part of this statement.

Statement 1

<u>Receipts</u>	<u>Expenditures</u>	<u>Ending unencumbered cash balance</u>	<u>Add encumbrances and accounts payable</u>	<u>Ending cash balance</u>
<u>\$ 1,650,290</u>	<u>\$ 1,752,762</u>	<u>\$ 265,028</u>	<u>\$ 49,136</u>	<u>\$ 314,164</u>
17,562	20,468	29,712	-	29,712
112,720	112,720	73	-	73
52,214	-	193,374	-	193,374
2,146	-	10,942	-	10,942
237,401	72,782	351,540	72,782	424,322
93,000	5,000	802,525	-	802,525
481,947	257,267	620,219	155,919	776,138
110,114	110,150	2,629	-	2,629
<u>1,107,104</u>	<u>578,387</u>	<u>2,011,014</u>	<u>228,701</u>	<u>2,239,715</u>
<u>-</u>	<u>-</u>	<u>18,034</u>	<u>-</u>	<u>18,034</u>
-	-	11,151	-	11,151
<u>2,013,797</u>	<u>2,013,797</u>	<u>-</u>	<u>209,244</u>	<u>209,244</u>
<u>2,013,797</u>	<u>2,013,797</u>	<u>11,151</u>	<u>209,244</u>	<u>220,395</u>
1,080,006	907,784	998,543	12,987	1,011,530
460,087	462,298	138,085	8,534	146,619
345,291	347,611	71	27,377	27,448
4,680,381	5,474,708	825,990	7,781	833,771
15,000	-	84,476	-	84,476
<u>6,580,765</u>	<u>7,192,401</u>	<u>2,047,165</u>	<u>56,679</u>	<u>2,103,844</u>
<u>\$ 11,351,956</u>	<u>\$ 11,537,347</u>	<u>\$ 4,352,392</u>	<u>\$ 543,760</u>	<u>\$ 4,896,152</u>
				\$ 22,775
				3,628,377
				<u>1,245,000</u>
				<u>\$ 4,896,152</u>

# CITY OF MEDICINE LODGE, KANSAS

## NOTES TO THE FINANCIAL STATEMENT

December 31, 2017

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies applied in the preparation of the accompanying financial statement is presented to assist in understanding the City's financial statement. The financial statement, schedules, and notes are representations of the City's management, which is responsible for their integrity and objectivity.

#### 1. Municipal Financial Reporting Entity

The City of Medicine Lodge is a municipal corporation governed by an elected mayor and five-member council. This regulatory financial statement presents the City of Medicine Lodge (the municipality) and the Public Building Commission (part of the municipality). The Lincoln Library, a related municipal entity, has not been included in the City's reporting entity.

**Public Building Commission.** The Commission was authorized by City Ordinance No. 818, pursuant to K.S.A 12-1757 et. seq., and all amendments thereto, and as amended, supplemented and limited by the City of Medicine Lodge, Kansas Charter Ordinance No. 17 establishing the composition thereof and purposes for which established. For financial reporting, the financial activities of the Public Building Commission are accounted for within a non-budgeted special purpose fund.

**Lincoln Library.** The members of the governing board of the Library are approved by the City Council. The Library is fiscally dependent on the City because the City provides substantial financial support in the form of appropriations. In addition, the Library is prohibited from issuing bonded debt without the approval of the City Council.

#### 2. Basis of Presentation – Fund Accounting

The accounts of the City are organized and operated on the basis of funds. In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The following types of funds comprise the financial activities of the City for the year ended December 31, 2017:

#### REGULATORY BASIS FUND TYPES

General fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special purpose fund – used to account for the proceeds of specific tax levies and other specific regulatory receipt sources (other than capital project and tax levies for long-term debt) that are intended for specified purposes.

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2. Basis of Presentation – Fund Accounting (Continued)

#### REGULATORY BASIS FUND TYPES (CONTINUED)

Bond and interest fund – used to account for the accumulation of resources (including tax levies and transfers from other funds) and payment of general long-term debt.

Capital project fund – used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment.

Business fund – funds financed in whole or in part by fees charged to users of the goods or services (i.e. enterprise and internal services fund, etc.).

### 3. Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The *Kansas Municipal Audit and Accounting Guide* (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the regulatory basis of accounting.

### 4. Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

- a. Preparation of the budget for the succeeding calendar year on or before August 1st.
- b. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
- c. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
- d. Adoption of the final budget on or before August 25th.

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4. Budgetary Information (Continued)

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in regulatory receipts other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. The following funds were amended:

<u>Fund</u>	<u>Original Budget</u>	<u>Amended Budget</u>
Special Highway	\$ 50,500	\$ 190,000
Library	119,715	131,429

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison schedules are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which receipts are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for the utility reserve funds, capital project funds, or the Municipal Equipment Reserve, Capital Improvements Reserve, and Public Building Commission special purpose funds.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

## B. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

## B. DEPOSITS AND INVESTMENTS (CONTINUED)

*Custodial credit risk - deposits.* Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2017.

At December 31, 2017, the City's carrying amount of deposits was \$4,873,377 and the bank balance was \$4,902,030. Of the bank balance, \$252,629 was covered by federal depository insurance, \$3,800,000 was collateralized with an irrevocable letter of credit from the Federal Home Loan Bank of Topeka, and \$849,401 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

## C. LONG-TERM DEBT

Changes in long-term liabilities for the City for the year ended December 31, 2017, were as follows:

Issue	Balance beginning of year	Additions	Reductions/ payments	Balance end of year	Interest paid
General obligation bonds:					
Refunding and improvement Issued April 1, 2013 In the amount of \$1,130,000 At interest rates of 0.80% to 2.70% Maturing September 1, 2024	\$ 645,000	\$ -	\$ 140,000	\$ 505,000	\$ 11,985
CID sales tax Issued May 23, 2017 In the amount of \$1,930,000 At interest rate of 3.00% Maturing September 1, 2030	-	1,930,000	-	1,930,000	-
Water system improvements Issued September 26, 2017 In the amount of \$3,732,000 At interest rate of 2.625% Maturing September 26, 2057	-	3,732,000	-	3,732,000	-
Subtotal general obligation bonds	645,000	5,662,000	140,000	6,167,000	11,985
Revenue bonds:					
Swimming pool improvements refunding Issued October 15, 2015 In the amount of \$1,035,000 At interest rates of 1.50% to 2.50% Maturing September 1, 2026	1,015,000	-	90,000	925,000	20,113
Revolving loans:					
Sewer plant Issued March 1, 2003 In the amount of \$2,946,766 At interest rate of 2.94% Maturing September 1, 2024	1,361,660	-	153,336	1,208,324	38,914
Water meter upgrades Issued December 6, 2012 In the amount of \$480,596 At interest rate of 2.43% Maturing August 1, 2022	182,109	-	28,549	153,560	4,253
Subtotal revolving loans	1,543,769	-	181,885	1,361,884	43,167
Temporary notes:					
Series 2016-1 GO Temp Notes Issued November 15, 2016 In the amount of \$3,708,000 At interest rate of 1.25% Maturing November 15, 2017	3,708,000	-	3,708,000	-	40,041
Total long-term debt	\$ 6,911,769	\$ 5,662,000	\$ 4,119,885	\$ 8,453,884	\$ 115,306

### C. LONG-TERM DEBT (CONTINUED)

Current maturities of general obligation bonds and interest for the next five years and in five year increments through maturity are as follows:

	Principal due	Interest due	Total due
2018	\$ 223,850	\$ 181,582	\$ 405,432
2019	280,264	160,656	440,920
2020	286,715	153,625	440,340
2021	298,203	146,227	444,430
2022	289,731	138,354	428,085
2023-2027	1,203,015	582,147	1,785,162
2028-2032	827,696	416,431	1,244,127
2033-2037	418,557	340,520	759,077
2038-2042	476,453	282,624	759,077
2043-2047	542,358	216,719	759,077
2048-2052	617,379	141,698	759,077
2053-2057	702,779	56,298	759,077
Total	<u>\$ 6,167,000</u>	<u>\$ 2,816,881</u>	<u>\$ 8,983,881</u>

Current maturities of revenue bonds and interest for the next five years and through maturity are as follows:

	Principal due	Interest due	Total due
2018	\$ 90,000	\$ 18,763	\$ 108,763
2019	95,000	17,413	112,413
2020	95,000	15,987	110,987
2021	100,000	14,562	114,562
2022	105,000	12,563	117,563
2023-2026	440,000	26,937	466,937
Total	<u>\$ 925,000</u>	<u>\$ 106,225</u>	<u>\$ 1,031,225</u>

Current maturities of revolving loans and interest for the next five years and through maturity are as follows:

	Principal due	Interest due	Total due
2018	\$ 187,124	\$ 37,928	\$ 225,052
2019	192,515	32,537	225,052
2020	198,061	26,991	225,052
2021	203,769	21,283	225,052
2022	209,641	15,411	225,052
2023-2024	370,774	13,724	384,498
Total	<u>\$ 1,361,884</u>	<u>\$ 147,874</u>	<u>\$ 1,509,758</u>

#### D. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports, the Kansas Department of Administration, and legal representatives of the City.

K.S.A. 10-130 requires that municipalities remit payments for any bonds or interest to the State fiscal agent at least twenty days before the date of maturity. The City did not make all of their bond payments in accordance with this statute.

#### E. CAPITAL PROJECTS

Capital project authorizations with approved change orders compared with cash disbursements and accounts payable from inception are as follows:

	<u>Project authorization</u>	<u>Cash disbursements and accounts payable to date</u>
Water system improvements	\$ 4,555,706	\$ 4,507,985
Streetscape project	2,127,835	2,061,036
Runway rehabilitation project	490,918	482,562
Airport access road	<u>882,854</u>	<u>249,399</u>
	<u>\$ 8,057,313</u>	<u>\$ 7,300,982</u>

#### F. INTERFUND TRANSFERS

Operating transfers:

<u>From</u>	<u>To</u>	<u>Regulatory authority</u>	<u>Amount</u>
General	Municipal equipment	K.S.A. 12-1,117	\$ 75,000
General	Capital improvement	K.S.A. 12-1,118	208,000
General	Public Building Commission	Resolution	110,113
Sewer utility	General	K.S.A. 12-825d	18,000
Sewer utility	Sewer plant O-M-R	K.S.A. 12-825d	15,000
Solid waste utility	General	K.S.A. 12-825d	19,500
Water utility	General	K.S.A. 12-825d	116,000
Water utility	Municipal equipment	K.S.A. 12-1,117	18,000
Water utility	Waterworks depreciation and maintenance res.	K.S.A. 12-825d	90,000
Water utility	Sewer utility	K.S.A. 12-825d	<u>110,000</u>
			<u>\$ 779,613</u>

Transfer to related municipal entity:

<u>From</u>	<u>To</u>	<u>Amount</u>
Library	Lincoln Library	<u>\$ 112,720</u>

## G. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

*Other post employment benefits.* As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured.

*Section 457 deferred compensation plan.* The City offers a Section 457 deferred compensation plan to all employees on a voluntary basis. The City does not contribute to the plan, which is administered by a third party.

*Section 125 plan.* The City offers Section 125 plans to all eligible employees electing to participate. It is used for accident and cancer insurance. The City withholds the amounts from the employee's paychecks and remits the withholding to the plan administrator.

*Compensated absences.* The City's policy allows vacation time to accumulate to 160 hours. However, the number of hours of unused vacation that can be carried over without written authorization from the City Council varies depending on the number of continuous years of employment. The maximum number of hours eligible to be carried over is as follows: 40 hours, 0-5 years; 80 hours, 6-10 years; 120 hours, 11-15 years; 140 hours, 16-20 years; and, 160 hours, over 20 years. Sick leave may be accumulated up to 720 hours but unused sick leave is not paid upon termination or resignation.

## H. DEFINED BENEFIT PENSION PLAN

*Plan description.* The City participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at [www.kpers.org](http://www.kpers.org) or by writing to KPERS (611 South Kansas, Suite 100; Topeka, KS 66603), or by calling 1-888-275-5737.

*Contributions.* K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2, or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2, and KPERS 3 members. Member contributions are withheld by the City and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

## H. DEFINED BENEFIT PENSION PLAN (CONTINUED)

State law provides that employer contribution rates for KPERS 1, KPERS 2, and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 1% contribution rate with a 0% moratorium from the period of January 1, 2017 through September 30, 2017 for the Death and Disability Program) and the statutory contribution rate was 8.46% for the fiscal year ended December 31, 2017. Contributions to the pension plan from the City were \$51,610 for the year ended December 31, 2017.

### Net Pension Liability

At December 31, 2017, the City's proportionate share of the collective net pension liability reported by KPERS was \$523,689. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017. The City's proportion of the net pension liability was based on the ratio of the City's contributions to KPERS, relative to the total employer and non-employer contributions of the Local subgroup within KPERS. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in the financial statement.

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publically available on the website at [www.kpers.org](http://www.kpers.org) or can be obtained as described above.

## I. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has been unable to obtain workers' compensation insurance at a cost it considered to be economically justifiable. For this reason, the City joined together with other cities in the State to participate in the Kansas Municipal Insurance Trust (KMIT), a public entity risk pool currently operating as a common risk management and insurance program for participating members.

The City pays an annual premium to KMIT for workers' compensation insurance coverage. The agreement to participate provides that the KMIT will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event. Additional premiums may be due if total claims for the pool are different than what has been anticipated by KMIT management.

The City continues to carry commercial insurance for all other risks of loss, including property, liability, and fidelity bonds. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years and there have been no significant reductions in coverage.

## J. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 1, 2018, the date on which the financial statement was available to be used. Management's evaluation concluded that there are no subsequent events that are required to be recognized or disclosed in this financial statement.

**REGULATORY-REQUIRED  
SUPPLEMENTARY INFORMATION**

## CITY OF MEDICINE LODGE, KANSAS

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS

For the Year Ended December 31, 2017

<u>Fund</u>	<u>Certified budget</u>	<u>Adjustment for qualifying budget credits</u>	<u>Total budget for comparison</u>	<u>Expenditures chargeable to current year</u>	<u>Variance favorable (unfavorable)</u>
General fund:					
General	\$ 2,191,706	\$ -	\$ 2,191,706	\$ 1,752,762	\$ 438,944
Special purpose funds:					
Tourism	30,000	-	30,000	20,468	9,532
Library	131,429	-	131,429	112,720	18,709
Special highway	190,000	-	190,000	-	190,000
Special parks and recreation	5,000	-	5,000	-	5,000
Community improvement district	250,000	-	250,000	72,782	177,218
Business funds:					
Water utility	1,082,765	-	1,082,765	907,784	174,981
Sewer utility	473,105	-	473,105	462,298	10,807
Solid waste utility	370,400	-	370,400	347,611	22,789
 Total	 <u>\$ 4,724,405</u>	 <u>\$ -</u>	 <u>\$ 4,724,405</u>	 <u>\$ 3,676,425</u>	 <u>\$ 1,047,980</u>

See Independent Auditor's Report.

## CITY OF MEDICINE LODGE, KANSAS

## GENERAL FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS

For the Year Ended December 31, 2017

(With Comparative Actual Totals for the Prior Year Ended December 31, 2016)

		2017		Variance
	2016	Actual	Budget	favorable (unfavorable)
Receipts:				
Taxes and shared revenue:				
Ad valorem property tax	\$ 647,218	\$ 680,020	\$ 704,571	\$ (24,551)
Delinquent tax	4,716	8,263	55,000	(46,737)
Motor vehicle tax	102,648	111,183	130,088	(18,905)
Recreational vehicle tax	1,317	1,707	1,881	(174)
16/20M tax	3,728	4,714	3,908	806
Special assessments	1,301	2,558	1,600	958
Local alcoholic liquor tax	2,070	2,206	3,500	(1,294)
Sales and use tax	505,417	495,547	665,000	(169,453)
License, permits and fees	4,418	6,283	6,600	(317)
Franchise fees	149,731	139,083	171,500	(32,417)
Fines, forfeitures and penalties	5,324	4,950	16,500	(11,550)
Charges for services	12,513	12,355	32,280	(19,925)
Interest	23,177	40,524	15,000	25,524
Use of property	50	50	-	50
Miscellaneous	23,465	30,561	17,500	13,061
Transfers:				
Water utility	108,000	116,000	117,000	(1,000)
Sewer utility	-	18,000	18,000	-
Solid waste utility	32,500	19,500	19,500	-
Neighborhood revitalization rebate	(43,014)	(43,214)	(41,096)	(2,118)
Total receipts	<u>1,584,579</u>	<u>1,650,290</u>	<u>\$ 1,938,332</u>	<u>\$ (288,042)</u>
Expenditures:				
Administration:				
Personnel	80,873	80,271	\$ 175,540	\$ 95,269
Contractual services	87,104	98,218	63,350	(34,868)
Commodities	7,658	5,783	18,900	13,117
Capital outlay	1,109	-	6,700	6,700
Economic development	25,000	25,000	18,950	(6,050)
Miscellaneous	1,463	2,057	1,000	(1,057)
Grant match	1,000	800	-	(800)
Total expenditures	<u>204,207</u>	<u>212,129</u>	<u>284,440</u>	<u>72,311</u>

## CITY OF MEDICINE LODGE, KANSAS

## GENERAL FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS

For the Year Ended December 31, 2017

(With Comparative Actual Totals for the Prior Year Ended December 31, 2016)

		2017		Variance
	2016	Actual	Budget	favorable (unfavorable)
Police department:				
Personnel	\$ 320,745	\$ 318,748	\$ 366,575	\$ 47,827
Contractual services	34,787	35,817	38,100	2,283
Commodities	13,481	14,212	23,350	9,138
Capital outlay	6,598	4,218	10,500	6,282
Miscellaneous	1,037	40	2,545	2,505
	<u>376,648</u>	<u>373,035</u>	<u>441,070</u>	<u>68,035</u>
Fire department:				
Personnel	-	319	800	481
Contractual services	9,220	7,267	10,150	2,883
Commodities	3,028	(120)	5,350	5,470
Capital outlay	11,719	8,608	41,595	32,987
Debt service:				
Principal	24,300	25,200	-	(25,200)
Interest	2,865	1,079	-	(1,079)
	<u>51,132</u>	<u>42,353</u>	<u>57,895</u>	<u>15,542</u>
Street department:				
Personnel	133,193	141,621	122,741	(18,880)
Contractual services	16,023	18,546	28,000	9,454
Commodities	21,072	23,633	30,650	7,017
Capital outlay	-	182	207,525	207,343
Miscellaneous	50	454	-	(454)
Debt service:				
Principal	64,800	67,200	-	(67,200)
Interest	4,625	2,876	-	(2,876)
	<u>239,763</u>	<u>254,512</u>	<u>388,916</u>	<u>134,404</u>
Swimming pool:				
Personnel	46,186	30,932	65,802	34,870
Contractual services	17,498	15,061	11,000	(4,061)
Commodities	6,051	4,729	13,750	9,021
Capital outlay	228	11,908	115,353	103,445
Miscellaneous	1,021	100	250	150
	<u>70,984</u>	<u>62,730</u>	<u>206,155</u>	<u>143,425</u>

## CITY OF MEDICINE LODGE, KANSAS

## GENERAL FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS

For the Year Ended December 31, 2017

(With Comparative Actual Totals for the Prior Year Ended December 31, 2016)

		2017		
	2016	Actual	Budget	Variance favorable (unfavorable)
Airport:				
Contractual services	\$ 10,625	\$ 16,003	\$ 13,400	\$ (2,603)
Commodities	-	-	2,600	2,600
Capital outlay	-	120	500	380
	<u>10,625</u>	<u>16,123</u>	<u>16,500</u>	<u>377</u>
Municipal court:				
Personnel	-	-	5,408	5,408
Contractual services	13,723	13,572	13,500	(72)
Commodities	-	-	300	300
	<u>13,723</u>	<u>13,572</u>	<u>19,208</u>	<u>5,636</u>
Code enforcement/animal control:				
Contractual services	27,373	14,187	54,200	40,013
Commodities	480	119	5,750	5,631
	<u>27,853</u>	<u>14,306</u>	<u>59,950</u>	<u>45,644</u>
Park department:				
Personnel	98,799	97,903	86,577	(11,326)
Contractual services	25,770	21,570	16,450	(5,120)
Commodities	7,051	8,071	22,350	14,279
Capital outlay	-	-	5,000	5,000
	<u>131,620</u>	<u>127,544</u>	<u>130,377</u>	<u>2,833</u>
Carrie Nation Memorial:				
Appropriation	12,750	12,500	12,500	-
Contractual services	2,928	3,377	1,850	(1,527)
Commodities	-	44	3,550	3,506
Capital outlay	-	-	2,750	2,750
	<u>15,678</u>	<u>15,921</u>	<u>20,650</u>	<u>4,729</u>

## CITY OF MEDICINE LODGE, KANSAS

## GENERAL FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS

For the Year Ended December 31, 2017

(With Comparative Actual Totals for the Prior Year Ended December 31, 2016)

		2017		Variance
	2016	Actual	Budget	favorable (unfavorable)
Street lights	\$ 45,168	\$ 43,049	\$ 47,800	\$ 4,751
Emergency preparedness	-	-	745	745
Recycling program	1,067	1,444	-	(1,444)
Economic development	-	-	25,000	25,000
Transfers:				
Municipal equipment reserve	130,000	75,000	50,000	(25,000)
Capital improvements reserve	208,000	208,000	208,000	-
Public Building Commission	37,918	110,113	-	(110,113)
Hospital appropriation	191,258	182,931	235,000	52,069
Total expenditures	1,755,644	1,752,762	\$ 2,191,706	\$ 438,944
Receipts over (under) expenditures	(171,065)	(102,472)		
Unencumbered cash, beginning of year	538,565	367,500	\$ 309,435	\$ 58,065
Unencumbered cash, end of year	\$ 367,500	\$ 265,028	\$ 56,061	\$ 208,967

See Independent Auditor's Report.

## CITY OF MEDICINE LODGE, KANSAS

## TOURISM FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS

For the Year Ended December 31, 2017  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2016)

		2017		Variance
	2016	Actual	Budget	favorable (unfavorable)
Receipts:				
Taxes and shared revenue:				
Guest tax	\$ 21,857	\$ 17,562	\$ 30,000	\$ (12,438)
Expenditures:				
Contractual services	1,656	468	\$ 5,000	\$ 4,532
Donations	38,750	20,000	25,000	5,000
Total expenditures	40,406	20,468	\$ 30,000	\$ 9,532
Receipts over (under) expenditures	(18,549)	(2,906)		
Unencumbered cash, beginning of year	51,167	32,618	\$ 34,672	\$ (2,054)
Unencumbered cash, end of year	\$ 32,618	\$ 29,712	\$ 34,672	\$ (4,960)

See Independent Auditor's Report.

## CITY OF MEDICINE LODGE, KANSAS

## LIBRARY FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS

For the Year Ended December 31, 2017

(With Comparative Actual Totals for the Prior Year Ended December 31, 2016)

		2017		Variance
	2016	Actual	Budget	favorable (unfavorable)
Receipts:				
Taxes and shared revenue:				
Ad valorem property tax	\$ 100,868	\$ 98,989	\$ 103,586	\$ (4,597)
Delinquent tax	757	1,299	13,000	(11,701)
Motor vehicle tax	16,606	17,331	20,232	(2,901)
Recreational vehicle tax	214	266	293	(27)
16/20M vehicle tax	585	766	609	157
Miscellaneous	-	360	-	360
Neighborhood revitalization rebate	(6,705)	(6,291)	(6,291)	-
Total receipts	112,325	112,720	<u>\$ 131,429</u>	<u>\$ (18,709)</u>
Expenditures:				
Transfer to related municipal entity	112,425	112,720	<u>\$ 131,429</u>	<u>\$ 18,709</u>
Receipts over (under) expenditures	(100)	-		
Unencumbered cash, beginning of year	173	73	<u>\$ 50</u>	<u>\$ 23</u>
Unencumbered cash, end of year	<u>\$ 73</u>	<u>\$ 73</u>	<u>\$ 50</u>	<u>\$ 23</u>

See Independent Auditor's Report.

## CITY OF MEDICINE LODGE, KANSAS

## SPECIAL HIGHWAY FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS

For the Year Ended December 31, 2017  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2016)

		2017		Variance
	2016	Actual	Budget	favorable (unfavorable)
Receipts:				
State of Kansas gas tax	\$ 53,175	\$ 52,214	\$ 52,213	\$ 1
Expenditures:				
Capital outlay	-	-	\$ 190,000	\$ 190,000
Receipts over (under) expenditures	53,175	52,214		
Unencumbered cash, beginning of year	87,985	141,160	\$ 141,160	\$ -
Unencumbered cash, end of year	\$ 141,160	\$ 193,374	\$ 3,373	\$ 190,001

See Independent Auditor's Report.

## CITY OF MEDICINE LODGE, KANSAS

## SPECIAL PARKS AND RECREATION FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS

For the Year Ended December 31, 2017  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2016)

		2017		Variance
	2016	Actual	Budget	favorable (unfavorable)
Receipts:				
Local alcoholic liquor tax	\$ 2,130	\$ 2,146	\$ 1,200	\$ 946
Expenditures:				
Capital outlay	-	-	\$ 5,000	\$ 5,000
Receipts over (under) expenditures	2,130	2,146		
Unencumbered cash, beginning of year	6,666	8,796	\$ 4,766	\$ 4,030
Unencumbered cash, end of year	\$ 8,796	\$ 10,942	\$ 966	\$ 9,976

See Independent Auditor's Report.

## CITY OF MEDICINE LODGE, KANSAS

## COMMUNITY IMPROVEMENT DISTRICT

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS

For the Year Ended December 31, 2017  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2016)

		2017		Variance
	2016	Actual	Budget	favorable (unfavorable)
Receipts:				
Sales and use tax	\$ 235,371	\$ 237,401	\$ 250,000	\$ (12,599)
Expenditures:				
Contractual services	130,678	5,099	\$ 50,000	\$ 44,901
Capital outlay	-	67,683	200,000	132,317
Total expenditures	130,678	72,782	\$ 250,000	\$ 177,218
Receipts over (under) expenditures	104,693	164,619		
Unencumbered cash, beginning of year	82,228	186,921	\$ -	\$ 186,921
Unencumbered cash, end of year	\$ 186,921	\$ 351,540	\$ -	\$ 351,540

See Independent Auditor's Report.

## CITY OF MEDICINE LODGE, KANSAS

## NON-BUDGETED SPECIAL PURPOSE FUNDS

SCHEDULE OF RECEIPTS AND EXPENDITURES  
REGULATORY BASIS

For the Year Ended December 31, 2017

	<u>Municipal equipment reserve</u>	<u>Capital improvements reserve</u>	<u>Public Building Commission</u>	<u>Total</u>
Receipts:				
Grants	\$ -	\$ 273,947	\$ -	\$ 273,947
Interest	-	-	1	1
Transfers:				
General	75,000	208,000	110,113	393,113
Water utility	<u>18,000</u>	<u>-</u>	<u>-</u>	<u>18,000</u>
Total receipts	<u>93,000</u>	<u>481,947</u>	<u>110,114</u>	<u>685,061</u>
Expenditures:				
Contractual services	-	128,064	37	128,101
Capital outlay	5,000	129,203	-	134,203
Debt service:				
Principal	-	-	90,000	90,000
Interest	<u>-</u>	<u>-</u>	<u>20,113</u>	<u>20,113</u>
Total expenditures	<u>5,000</u>	<u>257,267</u>	<u>110,150</u>	<u>372,417</u>
Receipts over (under) expenditures	88,000	224,680	(36)	312,644
Unencumbered cash, beginning of year	<u>714,525</u>	<u>395,539</u>	<u>2,665</u>	<u>1,112,729</u>
Unencumbered cash, end of year	<u>\$ 802,525</u>	<u>\$ 620,219</u>	<u>\$ 2,629</u>	<u>\$ 1,425,373</u>

See Independent Auditor's Report.

## CITY OF MEDICINE LODGE, KANSAS

## BOND AND INTEREST FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS

For the Year Ended December 31, 2017  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2016)

		2017		Variance
	2016	Actual	Budget	favorable (unfavorable)
Receipts:				
Taxes and shared revenue:				
Delinquent tax	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Debt service:				
Principal	-	-	\$ -	\$ -
Receipts over (under) expenditures	-	-		
Unencumbered cash, beginning of year	18,034	18,034	\$ 18,034	\$ -
Unencumbered cash, end of year	\$ 18,034	\$ 18,034	\$ 18,034	\$ -

See Independent Auditor's Report.

## CITY OF MEDICINE LODGE, KANSAS

## NON-BUDGETED CAPITAL PROJECT FUNDS

SCHEDULE OF RECEIPTS AND EXPENDITURES  
REGULATORY BASIS

For the Year Ended December 31, 2017

	<u>Sidewalk improvement</u>	<u>Community improvement district project</u>	<u>Total</u>
Receipts:			
Bond proceeds	\$ -	\$ 1,930,000	\$ 1,930,000
Bond premiums	-	83,797	83,797
Total receipts	<u>-</u>	<u>2,013,797</u>	<u>2,013,797</u>
Expenditures:			
Contractual services	-	116,372	116,372
Capital outlay	-	1,846,734	1,846,734
Debt service:			
Costs of issuance	<u>-</u>	<u>50,691</u>	<u>50,691</u>
Total expenditures	<u>-</u>	<u>2,013,797</u>	<u>2,013,797</u>
Receipts over (under) expenditures	-	-	-
Unencumbered cash, beginning of year	<u>11,151</u>	<u>-</u>	<u>11,151</u>
Unencumbered cash, end of year	<u>\$ 11,151</u>	<u>\$ -</u>	<u>\$ 11,151</u>

See Independent Auditor's Report.

## CITY OF MEDICINE LODGE, KANSAS

## WATER UTILITY FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS

For the Year Ended December 31, 2017

(With Comparative Actual Totals for the Prior Year Ended December 31, 2016)

		2017		Variance
	2016	Actual	Budget	favorable (unfavorable)
Receipts:				
Water sales	\$ 984,942	\$ 993,596	\$ 1,005,000	\$ (11,404)
New services	3,950	5,325	3,500	1,825
Reconnects	3,989	4,702	5,000	(298)
Bulk sales	1,199	901	1,300	(399)
Swimming pool fee	56,159	55,470	64,000	(8,530)
Sales tax	5,891	5,737	-	5,737
Miscellaneous	94	14,256	-	14,256
Reimbursed expenditures	93	19	3,000	(2,981)
Total receipts	1,056,317	1,080,006	\$ 1,081,800	\$ (1,794)
Expenditures:				
Personnel	159,387	162,859	\$ 204,149	\$ 41,290
Contractual services	158,117	167,156	96,250	(70,906)
Commodities	29,304	31,265	117,900	86,635
Capital outlay	6,083	19,918	311,566	291,648
Miscellaneous	4,009	8,029	15,900	7,871
Debt service:				
Principal	73,767	153,670	-	(153,670)
Interest	11,050	30,887	-	(30,887)
Transfers:				
General	108,000	116,000	119,000	3,000
Municipal equipment reserve	18,000	18,000	90,000	72,000
Waterworks depreciation and maintenance reserve	100,000	90,000	18,000	(72,000)
Sewer utility	100,000	110,000	110,000	-
Total expenditures	767,717	907,784	\$ 1,082,765	\$ 174,981
Receipts over (under) expenditures	288,600	172,222		
Unencumbered cash, beginning of year	537,721	826,321	\$ 528,206	\$ 298,115
Unencumbered cash, end of year	\$ 826,321	\$ 998,543	\$ 527,241	\$ 471,302

See Independent Auditor's Report.

## CITY OF MEDICINE LODGE, KANSAS

## SEWER UTILITY FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS

For the Year Ended December 31, 2017

(With Comparative Actual Totals for the Prior Year Ended December 31, 2016)

		2017		Variance
	2016	Actual	Budget	favorable (unfavorable)
Receipts:				
Charges for services	\$ 378,850	\$ 349,587	\$ 410,000	\$ (60,413)
Miscellaneous	1,500	500	750	(250)
Reimbursed expenditures	-	-	500	(500)
Transfers:				
Water utility	100,000	110,000	100,000	10,000
Total receipts	480,350	460,087	\$ 511,250	\$ (51,163)
Expenditures:				
Personnel	143,784	143,821	\$ 91,007	\$ (52,814)
Contractual services	139,334	172,429	87,396	(85,033)
Commodities	15,316	15,719	65,400	49,681
Capital outlay	121	999	196,252	195,253
Miscellaneous	20	205	50	(155)
Debt service:				
Principal	148,926	76,109	-	(76,109)
Interest	43,325	20,016	-	(20,016)
Transfers:				
General	-	18,000	18,000	-
Sewer plant O-M-R	-	15,000	15,000	-
Total expenditures	490,826	462,298	\$ 473,105	\$ 10,807
Receipts over (under) expenditures	(10,476)	(2,211)		
Unencumbered cash, beginning of year	150,772	140,296	\$ 118,162	\$ 22,134
Unencumbered cash, end of year	\$ 140,296	\$ 138,085	\$ 156,307	\$ (18,222)

See Independent Auditor's Report.

## CITY OF MEDICINE LODGE, KANSAS

## SOLID WASTE UTILITY FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS

For the Year Ended December 31, 2017  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2016)

		2017		Variance
	2016	Actual	Budget	favorable (unfavorable)
Receipts:				
Charges for services	\$ 345,131	\$ 345,291	\$ 373,000	\$ (27,709)
Expenditures:				
Contractual services	325,223	328,111	\$ 338,000	\$ 9,889
Transfers:				
General	32,500	19,500	32,400	12,900
Total expenditures	357,723	347,611	\$ 370,400	\$ 22,789
Receipts over (under) expenditures	(12,592)	(2,320)		
Unencumbered cash, beginning of year	14,983	2,391	\$ 20,108	\$ (17,717)
Unencumbered cash, end of year	\$ 2,391	\$ 71	\$ 22,708	\$ (22,637)

See Independent Auditor's Report.

## CITY OF MEDICINE LODGE, KANSAS

## NON-BUDGETED BUSINESS FUNDS

SCHEDULE OF RECEIPTS AND EXPENDITURES  
REGULATORY BASIS

For the Year Ended December 31, 2017

	Waterworks depreciation and maintenance reserve	Sewer plant O-M-R	Total
Receipts:			
Bond proceeds	\$ 3,732,000	\$ -	\$ 3,732,000
Grants	858,381	-	858,381
Transfers:			
Water utility	90,000	-	90,000
Sewer utility	-	15,000	15,000
Total receipts	4,680,381	15,000	4,695,381
Expenditures:			
Contractual services	232,652	-	232,652
Capital outlay	1,472,348	-	1,472,348
Miscellaneous	60	-	60
Debt service:			
Principal	3,708,000	-	3,708,000
Interest	40,041	-	40,041
Costs of issuance	21,607	-	21,607
Total expenditures	5,474,708	-	5,474,708
Receipts over (under) expenditures	(794,327)	15,000	(779,327)
Unencumbered cash, beginning of year	1,620,317	69,476	1,689,793
Unencumbered cash, end of year	\$ 825,990	\$ 84,476	\$ 910,466

See Independent Auditor's Report.

## **APPENDICES**

**CITY OF MEDICINE LODGE, KANSAS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended December 31, 2017

<u>Federal grantor/ pass-through grantor/ program title</u>	<u>Federal CFDA number</u>	<u>Pass-through grantor's number</u>	<u>Expenditures</u>	<u>Passed through to subrecipients</u>
<b>U.S. Department of Agriculture</b>				
Direct program				
Water and Waste Disposal Systems for Rural Communities - Direct Loan	10.760	N/A	\$ 903,904	\$ -
Emergency Community Water Assistance Grants	10.763	N/A	378,958	-
<b>U.S. Department of Housing and Urban Development</b>				
Passed through Kansas Department of Commerce Community Development Block Grant	14.228	15-PF-010	391,846	-
<b>U.S. Department of Transportation</b>				
Direct program				
Airport Improvement Program	20.106	N/A	<u>231,541</u>	<u>-</u>
 Total expenditures of federal awards			 <u><u>\$ 1,906,249</u></u>	 <u><u>\$ -</u></u>

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

## CITY OF MEDICINE LODGE, KANSAS

### NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2017

#### A. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Medicine Lodge, Kansas under programs of the federal government for the year ended December 31, 2017. The information in the Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City. The Schedule is presented using a regulatory basis of accounting prescribed by the *Kansas Municipal Audit and Accounting Guide* (as described in Note A to the financial statement), which is the same basis of accounting as the financial statement accompanying the Schedule.

#### B. BASIS OF ACCOUNTING

Expenditures reported on the Schedule were prepared using the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances.

#### C. INDIRECT COST RATE

The City has not elected to use the 10% de minimis cost rate as allowed under the Uniform Guidance.

#### D. LOAN AND LOAN GUARANTEE PROGRAMS

The City received a loan commitment from the USDA in 2013 in the amount of \$3,732,000. As part of this loan, the City obtained interim financing of \$3,708,000. Expenditures from this temporary financing are included as federal expenditures as incurred in accordance with federal program guidelines. The outstanding balance of the temporary note at December 31, 2016 was \$3,708,000. In September of 2017, general obligation bonds were issued by the City and purchased by USDA in the amount of \$3,732,000, and the City's interim financing was paid off.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and City Council  
City of Medicine Lodge, Kansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the City of Medicine Lodge, Kansas, as of and for the year ended December 31, 2017, and the related notes to the financial statement, and have issued our report thereon dated November 1, 2018. Our report on the financial statement disclosed that, as described in Note A to the financial statement, the City has prepared this financial statement in conformity with the accounting practices prescribed by the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the City of Medicine Lodge's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statement will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002, that we consider to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **City of Medicine Lodge's Response to Findings**

The City of Medicine Lodge's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Medicine Lodge's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kennedy McKee & Company LLP*

November 1, 2018

*Kennedy*  
*McKee & Company LLP* Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Honorable Mayor and City Council  
City of Medicine Lodge, Kansas

**Report on Compliance for Each Major Federal Program**

We have audited the City of Medicine Lodge, Kansas's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Medicine Lodge, Kansas's compliance.

## Opinion on Each Major Federal Program

In our opinion, the City of Medicine Lodge, Kansas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

## Report on Internal Control over Compliance

Management of the City of Medicine Lodge, Kansas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Medicine Lodge's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2017-003, that we consider to be a significant deficiency.

The City of Medicine Lodge's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Medicine Lodge's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Kennedy McKee & Company LLP*

November 1, 2018

## CITY OF MEDICINE LODGE, KANSAS

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended December 31, 2017

#### A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an adverse opinion on whether the financial statement of the City of Medicine Lodge, Kansas was prepared in accordance with GAAP.
2. Two deficiencies in internal control, which were considered to be material weaknesses, disclosed during the audit of the financial statement are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statement of the City of Medicine Lodge, Kansas which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. One significant deficiency in internal control over major federal programs disclosed during the audit is reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs for the City of Medicine Lodge, Kansas expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) are reported in this Schedule.
7. The program tested as a major program was:

Water and Waste Disposal Systems for Rural Communities – Direct Loan (CFDA #10.760)
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The City of Medicine Lodge, Kansas did not qualify as a low-risk auditee.

## B. FINDINGS - FINANCIAL STATEMENT AUDIT

### MATERIAL WEAKNESS

#### 2017-001: Adjusting Journal Entries

Condition: While performing our audit procedures, we determined that a substantial number of adjustments were required to the financial statement.

Criteria: Management is responsible for establishing, maintaining and monitoring internal controls over financial reporting, and for the fair presentation of the financial statement and related notes in conformity with the *Kansas Municipal Audit and Accounting Guide*. Management is also responsible for ensuring that all transactions are properly authorized, captured, and reported in the financial statement.

Cause: Management does not have a complete process in place to ensure that the general ledger used in the financial statement preparation process is final and contains all required journal entries. Also, there is no process in place to ensure journal entries posted to the general ledger are correct and the desired effect is obtained.

Effect: A significant number of adjustments were required that are material to the financial statement that were not recorded in the original general ledger provided to us at the beginning of our audit and were not identified by the City's internal controls over financial reporting. A significant number of the required adjustments were only identified as the auditors began the initial review of the provided audit documentation. Only after this audit review and audit notification to the City, were adjustments made to correct the general ledger.

Recommendation: We recommend that care be taken to properly and consistently classify all receipts and expenditures to promote accurate financial reporting. City personnel should review the general ledger for corrections to be made and review payments made for several months subsequent to year-end to ensure an accurate listing of accounts payable at year-end. We also suggest that management evaluate and revise internal controls over identifying and recording non-routine accounting transactions.

Views of Responsible Officials and Planned Corrective Actions: We concur with the recommendation and are working to strengthen internal control procedures for reviewing payments and recording non-routine transactions.

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

MATERIAL WEAKNESS

2017-002: Duplicate Payments

Condition: While performing our audit procedures, we noted three separate occasions where the City paid duplicate invoices to the same vendor. The vendor caught these duplicate payments and issued refund checks to the City; however, one of these refund checks was misfiled by City personnel and not deposited until it was brought to the City's attention during audit fieldwork.

Criteria: The City has a review process in place where personnel review invoices for accuracy and approve the invoice prior to payment.

Cause: The City's review process failed to discover that the previous balance due shown on invoices had already been paid.

Effect: The City overpaid the vendor by \$57,355 and was subsequently reimbursed, but one of the refund checks in the amount of \$22,773 was not deposited until the subsequent year.

Recommendation: We recommend that City personnel review vendor invoices for accuracy and make any necessary changes to ensure the correct amount is paid.

Views of Responsible Officials and Planned Corrective Actions: We concur with the recommendation and are working to develop better internal control procedures for reviewing vendor payments, especially on large projects that utilize multiple vendors.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

**DEPARTMENT OF AGRICULTURE**

**SIGNIFICANT DEFICIENCY**

2017-003: Water and Waste Disposal Systems for Rural Communities

CFDA No. 10.760

Grant period: Year Ended December 31, 2017

Condition and Context: Per review of the project expenditures, we noted that one of the twenty-three expenditures for 2017 was not reported to the USDA. Also, one 2017 expenditure that was reported to the USDA was subsequently voided, but this voided transaction was not properly communicated to the USDA and therefore was still included on the USDA tracking spreadsheet. In addition to the previous items noted, two expenditures from 2016, that were noted in the prior year audit, were not appropriately updated and reported to the USDA.

Criteria: The City is required to submit all project invoices to the USDA in order for them to track funds expended to date and the remaining authorization on projects.

Cause: The finding occurred due to inadequate review procedures of the reporting process and the use of estimated amounts which were not updated when the actual amounts became available.

Effect: The USDA was not provided an accurate accounting of expenditures.

Recommendation: We recommend that the reporting of expenditures related to the project be reviewed by management and reconciled to the City's accounting records prior to submission to the USDA. Also, once expenditures are submitted to the USDA and put on the tracking spreadsheet, items should be reviewed once again to determine that expenditures are appropriately listed and there are no subsequent changes to report.

Views of Responsible Officials and Planned Corrective Actions: We concur with the recommendation. City staff will work closely with funding agencies to communicate changes to project expenditures and ensure that tracking documents used by all project partners are in agreement.